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FOR SECRETARY GATES FROM AMBASSADOR TAYLOR

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SUBJECT: UKRAINE: SCENESETTER FOR SECDEF'S MEETING WITH
UKRAINIAN PRESIDENT YUSHCHENKO

Classified By: Ambassador for reasons 1.4(a,b,d).

11. (C) Summary: Secretary Gates, your meeting with President Yushchenko at Wehrkunde next week comes at a time when the struggle between Yushchenko and PM Yanukovych for political dominance and the right to define national security, defense, and foreign policy has intensified. Recent legislation passed by Yanukovych's majority in the Rada (parliament) over presidential objections expands the PM/Cabinet of Ministers' authority at the expense of the presidency. However, Yushchenko still enjoys dominance in foreign and security policy and continues to reiterate his commitment to Euro-Atlantic integration, most recently in a letter to President Bush. In the letter, Yushchenko notes Ukrainian support for our efforts in Kosovo and Afghanistan and mentions Ukrainian participation in the Active Endeavor exercise in the Mediterranean. Yushchenko also has the power to influence the domestic agenda through use of his veto power. Although both the President and PM continue to talk about cooperation, both are now waiting for the Constitutional Court to weigh in on myriad questions about how the political system should function.

12. (C) In spite of the political maneuvering, the primary gains of the Orange Revolution in societal attitudes, freedom of the press, and foreign and security policy remain intact. Although Yushchenko remains an important political force, the Yanukovych team will be the dominant force for at least the next six months, if not longer, and our goal will be to encourage good policy choices. The Regions-led coalition in the Rada enjoys greater initiative and leverage, not only on economic issues but increasingly in foreign and security policy, formally within the Presidential prerogative to direct. In this latter sphere, progress has been made on WTO accession and relations with Russia, while Ukraine's NATO aspirations have been put on a slower track. Defense Minister Hrytsenko continues to push defense reforms and Ukraine remains an active participant in foreign operations--such efforts are detailed below. End summary and comment.

13. (U) I recommend that you raise the following themes with President Yushchenko:

--We are with you on NATO--the door is open, but this is a decision for Ukrainians.

--We support your Defense Minister's work on modernizing and reforming your armed forces.

--Ukraine has been a good partner for us. We appreciate the close relationship you had with my predecessor and Ukraine's support for U.S. policies/operations in Kosovo and Afghanistan.

Regions Takes the Lead

14. (C) The dynamic between Yushchenko and Yanukovych, as the institutions of the Presidency and Premiership/Cabinet struggle to define power and influence under the new rules of post-constitutional reform, is one of Ukraine's key political issues. The poorly-written reforms, passed hastily in December 2004 as part of the deal to resolve the Orange Revolution political impasse, have paved the way for the more aggressive team of PM Yanukovych to redefine the political system to its advantage. With a solid Rada majority in hand, PM Yanukovych has moved forward with Party of Regions' agenda, as his Donetsk clan lieutenants took over key economic slots throughout state enterprises and agencies. Although Yushchenko sets the tone on Ukraine's foreign and security policies, considered to be constitutionally within his domain, the Prime Minister has comfortably made statements in these areas too.

15. (C) The most recent effort to tip the balance of power in the Cabinet's favor was the passing of a new Cabinet of Ministers law on January 12, without including any of the suggested inputs from Yushchenko, that gave the CabMin additional inroads on presidential authorities. The Rada majority, controlled by Yanukovych's Party of Regions, also voted on January 12 to create a new Deputy Prime Minister in charge of security and law enforcement issues, arguably crossing into another area of presidential prerogative.

16. (C) Another area of contention has been the fate of senior officials designated as presidential appointments by the Constitution. After two months of fighting over whether the

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Rada had the right to remove the Foreign Minister, as they voted to do on December 1, FM Tarasyuk stepped down on January 30. The two minority parties in the governing coalition, the Communists and Socialists, have now set their sights on Defense Minister Hrytsenko--a Yushchenko appointee and friend and confidant of your predecessor--although Yanukovych may protect him. Yushchenko appears to be seeking to regain the policy lead in foreign and security policy. Neither of his nominations for FM or Head of the Security Service (SBU), both of which he announced this week, is a sure bet for confirmation by the Rada; neither is a compromise candidate. FM-designate Ohryzko is ardently pro-NATO and anti-Russian, which makes him unappealing to some in the coalition. SBU Chief-designate Korol is someone with little background in the intelligence field, who has ties to one of Yushchenko's oligarch allies, Petro Poroshenko.

Yushchenko Falling Behind

17. (C) Starting in mid-September, Yushchenko belatedly hired more professional managerial types to beef up his Presidential Secretariat. There is widespread belief, including among his dwindling supporters, that Yushchenko simply does not have the will to assert himself in a way which would serve the interests of his personal political fortunes, the institution of the presidency, and Ukraine in general. He scored a moral victory November 28 in his efforts to shape Ukrainian national consciousness and identity when the Rada voted in favor of his bill on declaring the devastating Stalin-caused 1932-33 famine, known in Ukrainian as the holodomor, as genocide. But such presidential triumphs have been rare.

18. (C) Deputy Head of the Presidential Administration Yatsenyuk told the Ambassador that only when Yushchenko has something that Yanukovych wants does he prevail in the ongoing power struggle. For example, in mid-December, with Yushchenko threatening a second veto of the budget, he

finally saw progress on some of his demands, including Rada approval of increases in the living wage and minimum wage; the Rada's agreement to dismiss SBU Chief Drizhchaniy, per Yushchenko's request; and Regions dropping their protests about his replacing the former governor of Sumy oblast.

¶9. (C) The December compromise, as with others before it, was short-lived. The January 12 events--the passage of the CabMin law and the creation of the new DPM position--undid most cooperation and trust between the two leaders, with Yushchenko left holding the short straw. The most recent meeting between the President and PM, on February 5, was reportedly unproductive, and Yushchenko's announcement of Ohryzko as his choice for FM suggests that cooperation will be sporadic at best.

NATO and MAP

¶10. (C) The struggle to define who controls foreign policy has largely focused on the pace of the pursuit of Ukraine's NATO aspirations and the desire by President Yushchenko, former FM Tarasyuk, and Minister of Defense Hrytsenko for a Membership Action Plan (MAP) as soon as possible. Yanukovych seized the initiative during his September 14 visit to NATO by stating that Ukraine was not ready for a MAP. Instead, it would focus on practical cooperation with NATO and a strong public education campaign. Yushchenko told Ambassador the day after nominating Yanukovych as Premier in August that he thought he had Yanukovych's agreement to send a positive signal to NATO in August regarding MAP; once in office, Yanukovych declined to do so and moved the terms of the debate in a different direction.

¶11. (C) In terms of gaining wide political consensus outside the Communists about the need to move forward on relations with NATO, and reaching out to Regions' blue base in the east and the south, having Regions leading the government rather than in angry opposition to an orange coalition makes the public education effort on NATO potentially more likely to succeed. In private, Yanukovych has told us that the end goal of membership is not in doubt, but he and Yushchenko differ on tactics; Yushchenko and former FM Tarasyuk have repeatedly said the same in public.

¶12. (C) At the same time, Yushchenko is being pushed by anti-NATO proponents to hold a referendum on membership this year. Given the current lack of public support for NATO

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(roughly 25 percent), such a vote is destined to fail. The law on referenda says that a failed referendum cannot be held again for five years, which would effectively hamstring any significant move towards the Alliance for the rest of Yushchenko's term in office (2009). The CEC and Presidential Secretariat have told us that they are looking for ways to

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postpone the vote, and even Yanukovych has said publicly that it is too soon to make this decision, but legal requirements and a public campaign by minor political parties with ties to Moscow will continue to put pressure on Yushchenko to act. (Note: the most prominent and vocal figure within PM Yanukovych's Regions party in favor of the referendum and against relations with NATO, MP Yevhen Kushnaryov, died January 16 as a result of a hunting accident. It is still too early to predict the full impact of Kushnaryov's unexpected departure from the political stage, but it may lessen pressure on the referendum front.)

Defense Situation

¶13. (C) Defense Minister Anatoliy Hrytsenko continues to push his aggressive defense reform program. Unfortunately, lack of adequate funding, continued political uncertainty, and

some misdirected policies have increased the level of frustration among senior military officers who are ordered to implement the programs. Major programs are moving forward but not without problems and delays. The armed forces are creating professional NCOs, but many are choosing to leave military service because of dissatisfaction with pay and housing. Lack of combat training funds continues to take a toll on equipment, readiness, and morale. The Party of Regions-led Rada tried to dismiss Minister Hrytsenko at the end of 2006, but at present they have given up on those efforts. The uncertainty about the future composition of the Ministry of Defense and a possible change in speed or direction it may take with regard to Euro-Atlantic integration is causing many senior officers to hunker down in the trenches until the dust settles. Hrytsenko continues to be outspoken regarding NATO membership and the lack of an adequate military budget.

¶14. (U) Hrytsenko's main defense reform priorities remain the following: 1) achieving NATO standards and interoperability in the structures and functions of the Ministry of Defense, General Staff and armed services of Ukraine; 2) transforming and restructuring the Ukrainian Armed Forces into a modern, professional and contract-based force; 3) developing, training and equipping NATO-interoperable Rapid Reaction Forces that are capable of deploying and participating in international operations; 4) preparing, deploying and sustaining forces participating in on-going military operations; 5) improving the health care system of the armed services, providing adequate housing for all service members, solving the problems of social adjustment of retired servicemen and converting military bases to civilian use, and 6) solving the problem of excess arms and munitions in storage sites throughout the country and the elimination of Milange rocket fuel left over from Soviet times.

¶15. (U) More recent areas of focus include 1) developing a research, development, and acquisition process for military equipment and weapons; 2) developing a modern, western-style personnel system, logistics system, and a reserve force system, and 3) developing a modern civilian-industrial complex that can meet the Ukrainian military requirements and provide economical return to Ukraine.

¶16. (C) The only major setback to U.S.-Ukraine bilateral cooperation experienced in 2006 was with the exercise related construction project that was associated with Exercise SEA BREEZE, but that unfortunate episode was heavily influenced by opposing national political forces, local Crimean political figures, and probable Russian involvement and financing. The U.S. canceled its participation in the land portion of the exercise due to continuing demonstrations and then pulled out of the sea portion of the exercise due to operational requirements in Lebanon in July 2006. Since SEA BREEZE, the U.S. and Ukraine conducted two highly successful training exercises (RAPID TRIDENT and ROUGH and READY). In addition, lessons gleaned from SEA BREEZE have led to much improved interagency planning and coordination among Ukrainian ministries concerning logistics and force protection. Under Ukrainian law, the participation in exercises by foreign units in Ukrainian territory requires parliamentary approval. The 2007 foreign exercise legislation is under government consideration at this time.

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We should continue to seek positive signals from the Prime Minister that he desires these exercises to be executed in a successful manner.

Summary of major U.S. assistance to defense reform

¶17. (U) NCO Professionalization Project. A U.S. project team has been on the ground for over a year and a half. The project which is managed by the Office of Defense

Cooperation, is being re-scoped following an October 2006 program management review and being extended through FY08. While initial academic courses have been written and implemented in the service NCO schools, implementation of the necessary policy, regulatory, and cultural reforms necessary to create proper conditions for a professional force have lagged and will be the focus of the next efforts.

¶18. (U) Defense Planning case. Non-resident defense advisory seminars have been on-going since 2004 with a focus on institutional and doctrinal reform and development of a western-modeled Ukrainian Defense planning system. Focus areas include creation of Joint Mission Essential Task Lists, a modern defense acquisition system, an improved logistics system, a joint operational command structure, and joint staff officer training. Minister Hrytsenko recently issued a directive to make better use of the MOD's foreign defense advisors and established a joint consultative committee.

¶19. (U) Global Peace Operations Initiative. The U.S. has apportioned \$2.2M in GPOI funds to assist Ukraine in enhancing the capability of its regional peacekeeping training center near Lviv in Western Ukraine.

¶20. (U) NATO interoperable communications equipment for Army and Navy Joint Rapid Reaction Units. The Office of Defense Cooperation is developing cases for providing interoperable tactical communications equipment for select units of the Ukrainian Naval and Land Forces Rapid Reaction Units. Site surveys have been completed and DSCA is currently preparing letters of acceptance to move the cases into implementation.

¶21. (U) Professional Military Education Reform. The U.S. National Defense University is assisting Ukraine's National Defense Academy in restructuring its senior officer course from a two-year to a one year curriculum.

Current Operations

¶22. (U) Ukraine currently has contingents and personnel serving in various operations in nine countries.

¶23. (U) Operation Active Endeavor (OAE). The top priority for the Ukrainian Navy is to become an active participant in OAE. The Navy deployed a ship on a four week cruise to the Mediterranean Sea on 29 October 2006 to exercise its deployment and logistics support capabilities. The U.S. has assisted by providing logistics sustainment advice and ship boarding training. The U.S. will also provide ship boarding equipment for future deployments. The Ukrainian Navy hopes to receive NATO certification to fully participate in OAE in the spring of 2007.

¶24. (U) Iraq. Ukraine maintains 43 personnel in Iraq. 40 personnel serve on headquarters staffs and in training of Iraqi forces. Three personnel serve in the NATO training mission training Iraqi security personnel. (Note-one of the three was severely wounded by an IED and has returned to Ukraine.)

¶25. (U) Kosovo. Ukraine recently completed a rotation in which for the first time, a formed and intact unit deployed as opposed to a unit which was created from personnel from several different units. Ukraine has a contingent of 182 personnel in Kosovo serving in the UKRPOLBAT and headquarters staffs. Two personnel serve on U.S. staffs.

¶26. (U) UN Peacekeeping Mission, Liberia. Ukraine maintains a helicopter unit in Liberia with a contingent of 301 personnel.

¶27. (U) Lebanon. The United Nations asked that Ukrainian forces depart Lebanon in April 2006 after a July 2005 UN investigation of alleged corruption activities by the leadership of their engineering battalion serving in UNIFIL. This engineering battalion went to Lebanon under the Kuchma regime. Since this incident, Minister Hrytsenko has

implemented several measures to prevent and guard against unlawful activities during deployed operations. Ukraine offered military troops for Lebanon to assist in the latest crisis there but that offer was rejected by the UN. Currently, Ukraine is coordinating with Italy and Belgium to send medical personnel to Lebanon with Italian/Belgium forces.

¶28. (U) Afghanistan. Ukraine provided airlift to transport the Southeast European Brigade Headquarters to Afghanistan in February 2006. Ukraine will send one medical doctor with the Lithuanian PRT. Due to its history in Afghanistan during the Soviet-Afghanistan war, Ukraine will not entertain sending combat troops.

Russia: Friendship and Gas

¶29. (C) PM Yanukovich came to office on a campaign promise to improve relations with Russia. Although he has toned down the rhetoric calling for closer ties with Russia, he appears to be seeking the right balance between closer ties to Moscow and protecting Ukrainian sovereignty. Russian President Putin finally visited Kyiv on December 22 for the first time since March 2005. The primary achievements of the trip, Presidential Secretariat deputy head Chaliy told Ambassador, were the positive atmosphere and the launching of the formal Yushchenko-Putin Commission mechanism. There were four bilateral agreements signed, the most important being on readmissions and intellectual property protection, but the most contentious bilateral issues, like the Black Sea Fleet, did not appear to be addressed.

¶30. (C) On the energy side, the Yanukovich Government managed to conclude a positive deal with the Russians soon after coming to power by negotiating a 2007 natural gas price of \$130/thousand cubic meters, and thus avoiding a repeat of the New Year's Day 2006 gas shut-off. Fuel and Energy Minister Boyko, however, has repeatedly stressed the positive role RosUkrEnergo (RUE) plays in affording Ukraine cheap energy. The non-transparent middleman, which Boyko helped create, expects to expand further its influence in Ukraine's energy market through acquisitions made either by itself or by its subsidiary, UkrHazEnergo. The GOU has floated ideas of forming a consortium with Russia to build expanded gas pipeline capacity to Europe, but has so far stopped short of allowing Russia any role in owning or managing the existing Ukrainian gas pipeline network.

Economy Healthy Despite Mixed Policies

¶31. (SBU) Yanukovich has been fortunate that Ukraine's economy has performed well since the March 2006 elections. GDP growth reached nearly 7 percent in 2006, on the strength of higher prices for steel (Ukraine's chief export), and increasing consumption spurred by rising social pension and wage levels. Inflation approached 12 percent, however, as the economy absorbed a near-doubling of the price of imported natural gas. Ukraine's external debt levels are low, and the central bank has ample foreign exchange reserves to maintain a stable currency exchange rate to the dollar for the time being.

¶32. (C) Yanukovich is striving to overcome his image as a creature of former President Kuchma's corrupt crony-capitalist system. In a speech at Davos this year, he promoted Ukraine as a destination for foreign investment, promising pro-business regulatory reforms, continued high growth, and integration into the world economic system. Nonetheless, his government's track record so far has been mixed. Its laudable success in passing WTO legislation has been offset by some policies that suggest a return to old-style non-transparent relations between government and business. Among these has been the GOU's accumulation of

arrears in paying refunds of VAT proceeds to exporters. Refunds have reportedly been available chiefly to well-connected companies, or to those willing to pay a "broker" 15 to 20 percent to facilitate the repayment. At the end of January, however, the GOU significantly reduced its arrears and promised more regular payments in the future.

The government's abrupt decision in October 2006 to restrict grain exports--a policy that benefits powerful food industry interests--has cost exporting firms, farmers, and the transportation sector over \$200 million. The GOU is now discussing relaxing or abolishing the quotas, apparently only now beginning to realize that the cost to Ukrainian farmers and to its long term trading reputation of limiting exports could be devastating.

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WTO Plans Moving Forward

¶33. (SBU) The most immediate foreign policy priority for Ukraine remains accession to the WTO. The Yanukovych government initially moved slowly to introduce necessary legislation in the Rada and made some contradictory public statements, raising fears that accession would be delayed. In part spurred by President Yushchenko, however, the GOU made a serious push in September-December, securing parliamentary approval for 20 separate bills, the bulk of the required legislation. The GOU anticipates having to make some additional legislative fixes to ensure WTO conformity. In addition, Ukraine must still reach agreement on a bilateral Market Access Agreement with Kyrgyzstan, the last remaining for Ukraine's accession, and must come to terms with WTO Working Party members on agricultural subsidy levels.

¶34. (U) Visit Embassy Kyiv's classified website:
www.state.sgov.gov/p/eur/kiev.
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